

# VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

AUDITED BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2002



***VIRGINIA***  
Is For Business

Virginia Economic Development Partnership  
Audited Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

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VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP  
Richmond, Virginia

**APPOINTED OFFICIALS**

Board of Directors

L. I. Prillaman, Chair  
Jean E. Clary, Vice-Chair

Mary Rae Carter	John A. Mahone
George B. Cartledge, III	John F. Malbon
Lawrence A. Davies	Richard F. Neel, Jr., Esquire
Steve DelBianco	James E. Rich, Jr.
J. Thomas Fowlkes	John W. Roberts
Robert T. Skunda	

The Honorable Michael J. Schewel, Ex-Officio  
The Honorable John M. Bennett, Ex-Officio

Executive Director

Mark R. Kilduff



# Commonwealth of Virginia

Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

October 25, 2002

The Honorable Mark R. Warner  
Governor of Virginia

The Honorable Kevin G. Miller  
Chairman, Joint Legislative Audit  
and Review Commission

Board of Directors  
Virginia Economic Development Partnership

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and the General Fund, a major fund, of the **Virginia Economic Development Partnership**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2002, which collectively comprise the Partnership's basic financial statements as listed in the Table of Contents of this Appendix. The financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts, and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Virginia Economic Development Partnership as of June 30, 2002, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable Mark R. Warner  
The Honorable Kevin G. Miller  
Board of Directors  
October 25, 2002  
Page 2

As described Note 1C, the Partnership has implemented a new financial reporting model as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as of June 30, 2002.

In accordance with Government Auditing Standards, we have also issued a separate report dated October 25, 2002, on our consideration of the Partnership’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management’s Discussion and Analysis presented on pages 5 through 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

AUDITOR OF PUBLIC ACCOUNTS

## VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

### MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF JUNE 30, 2002

The management of the Virginia Economic Development Partnership (Partnership) offers the readers of the Partnership's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2002. We encourage the reader to consider this information presented here in conjunction with the financial statements and accompanying notes.

#### **Overview of the Financial Statements**

##### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Virginia Economic Development Partnership (Partnership) in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the Partnership's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Partnership is improving or deteriorating.

The Statement of Activities presents information showing how the Partnership's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. For example, accrued interest earned but not yet collected (revenue) or earned but unused vacation leave (expense).

##### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Partnership, like other political subdivisions of the Commonwealth of Virginia, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The financial activities of the Partnership are reported in *governmental funds*.

**Governmental Funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Partnership's near-term financing requirements.

### **Reconciliations between Government-Wide and Fund Financial Statements**

There are two reconciliations between the government-wide and the fund financial statements. The first is found on the Balance Sheet and explains the difference between the *fund balance* on the Balance Sheet and *net assets* on the Statement of Net Assets. The second is found on the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities, which reconciles the difference between the *net change in fund balances* on the fund-based statement and the *change in net assets* on the government-wide based statement. Both statements describe in sufficient detail the amounts and the reasons for those differences.

### **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of an organization's financial position. In the case of the Partnership, assets exceeded liabilities by \$1,544,719 at the close of the fiscal year ended June 30, 2002.

#### Net Assets

Current and other assets	\$ 2,525,076
Capital assets	910,558
Total assets	<u>3,435,634</u>
Long-term liabilities	1,653,230
Other liabilities	237,685
Total liabilities	<u>1,890,915</u>
Net assets:	
Invested in capital assets, net of related debt	897,424
Unrestricted	647,295
Total net assets	<u>\$ 1,544,719</u>

The largest component of the Partnership's net assets is comprised of its *Capital Assets, net of related debt*, which amounts to \$897,424. These assets are used by the organization to deliver program services to its clients and consist primarily of computers and peripheral technology equipment. The remainder of the net assets, \$647,295, is *unreserved* and will be used to meet the Partnership's ongoing operating obligations.

## Changes in Net Assets

### Revenues:

#### Program revenues:

Charges for services	\$ 239,297
Operating grants and contributions	20,375

#### General revenues:

General Fund appropriations	19,845,136
Other	150,742
Total revenues	<u>20,255,550</u>

### Expenses:

Business development	4,160,591
International trade	2,541,725
Research	1,847,551
Communications and promotions	4,141,413
Community assistance	333,333
General counsel and legislation	317,504
Technical services	146,074
Information systems	906,222
Presentation systems	1,048,315
Administration	2,700,015
Pass-through payments	2,630,000
Total expenses	<u>20,772,743</u>

Decrease in net assets	(517,193)
Net assets, July 1, 2001	<u>2,061,912</u>
Net assets, June 30, 2002	<u><u>\$ 1,544,719</u></u>

Net assets for the Partnership decreased by \$517,193 during the current fiscal year. This is approximately \$300,000 more than the decrease from last year. The primary reason is that revenues declined more rapidly than related expenses, net of charges for services, in this fiscal year as compared to last fiscal year. All revenues decreased by approximately \$1.6 million due to the Partnership's share of state funding reductions and a reduction in interest earnings from significantly reduced interest rates. Expenses, net of charges for services, declined by approximately \$1.3 million.

### **General Fund Budgetary Highlights**

The Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual-Cash Basis is presented to provide information on the budget as originally prepared and the final budget on which the Partnership operated for the fiscal year. Also, the final budget is compared to the cash basis actual results by revenue source and expenditure activity.

The primary change in total revenue occurred from a reduction in the Revenue provided by the General Fund of the Commonwealth, which declined by a net amount of \$1,480,841 from the prior fiscal year due to a statewide General Fund revenue estimate reduction. Additional



reductions are anticipated for the next two fiscal years based on announced revised revenue estimates. The Partnership modified its revenue and expenditure budgets accordingly.

The primary reason for the expenditure variances can be accounted for, as with last year, by the impact of the revenue reductions. During the fiscal year ended June 30, 2002, the Partnership eliminated several vacant positions; reduced the number of marketing shows, missions, and events; extended the replacement period of information technology hardware and software; and reduced some advertising. Further actions are anticipated in the next fiscal year, the details of which are being developed.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes describe the nature of the Partnership's reporting entity and the relationship to the Commonwealth of Virginia as a whole; the basis on which the financial statements were prepared; and the methods used for presentation. Further, the notes provide explanations of specific accounts with significant balances.

### **Requests for Information**

This financial report is designed to provide a general overview of the Partnership's finances for all those with an interest in the authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Virginia Economic Development Partnership, P.O. Box 798, Richmond, Virginia, 23218-0798.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP  
STATEMENT OF NET ASSETS  
As of June 30, 2002

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents (Note 2)	\$ 2,173,104
Petty cash	146,027
Employee travel advances	7,994
Prepaid expenses	44,112
Lease deposits (Note 5)	153,839
Capital Assets, net of accumulated depreciation:	
Leasehold Improvements, Furniture, and Equipment (Note 6)	<u>910,558</u>
Total assets	<u>3,435,634</u>
<b>Liabilities</b>	
Accounts payable	90,714
Accrued payroll	146,971
Noncurrent liabilities due within one year	
Installment Purchases Payable (Note 8)	4,796
Compensated absences (Note 9)	488,164
Accrued severance compensation	107,875
Noncurrent liabilities due in more than one year	
Installment Purchases Payable (Note 8)	8,338
Compensated absences (Note 9)	183,311
Net Pension Obligation (Note 10)	<u>860,746</u>
Total liabilities	<u>1,890,915</u>
<b>Net assets</b>	
Investment in Capital Assets, net of related debt	897,424
Unreserved	<u>647,295</u>
Total net assets	<u><u>\$ 1,544,719</u></u>

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2002

	Expenses	Charges for Goods & Services	Operating Grants & Contributions	Net (Expense) Revenue and Changes in Net Assets
<b>Governmental Activities:</b>				
Business Development	\$ 4,160,591			\$ (4,160,591)
International Trade	2,541,725	97,628		(2,444,097)
Research	1,847,551			(1,847,551)
Communications and Promotions	4,141,413	141,669		(3,999,744)
Community Assistance	333,333		20,375	(312,958)
General Counsel and Legislation	317,504			(317,504)
Technical Services	146,074			(146,074)
Information Systems	906,222			(906,222)
Presentation Systems	1,048,315			(1,048,315)
Administration	2,700,015			(2,700,015)
Pass-through Payments	2,630,000			(2,630,000)
Total governmental activities	20,772,743	239,297	20,375	(20,513,071)
<b>General Revenues:</b>				
Revenue provided by the General Fund of the Commonwealth (Note 4)				19,845,136
Interest revenue				129,045
Other Revenue				21,697
Total general revenues				19,995,878
Decrease in net assets				(517,193)
Net assets, July 1, 2001 (Note 11)				2,061,912
Net assets, June 30, 2002				\$ 1,544,719

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP  
 COMBINED BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 As of June 30, 2002

	General Fund
<b>Assets</b>	
Cash and cash equivalents (Note 2)	\$ 2,173,104
Petty cash	146,027
Employee travel advances	7,994
Prepaid expenses	44,112
Lease deposits (Note 5)	153,839
	<hr/>
Total assets	<u>\$ 2,525,076</u>
<b>Liabilities and Fund Balances</b>	
Liabilities:	
Accounts payable	\$ 90,714
Accrued payroll	146,971
Compensated absences	10,979
	<hr/>
Total liabilities	<u>248,664</u>
Fund Balances:	
Unreserved	2,276,412
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	910,558
Non current liabilities (compensated absences, installment purchases, accrued severance compensation and net pension obligation) are not due and payable with current financial resources and, therefore, are not reported in the funds.	<u>(1,642,251)</u>
Net assets of governmental activities	<u>\$ 1,544,719</u>

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Fiscal Year Ended June 30, 2002

	General Fund
<b>Revenues</b>	
Revenue provided by the General Fund of the Commonwealth (Note 4)	\$ 19,845,136
Participation fees	145,365
Federal Grants	20,375
Mission reimbursements	93,932
Interest revenue	129,045
Other revenue	21,697
Total revenues	20,255,550
<b>Expenditures</b>	
Business Development	4,102,681
International Trade	2,500,410
Research	1,767,985
Communications and Promotions	4,145,962
Community Assistance	313,444
General Counsel and Legislation	304,373
Technical Services	162,986
Information Systems	833,385
Presentation Systems	928,356
Administration	2,598,692
Pass-through Payments	2,630,000
Total expenditures	20,288,274
Revenues over (under) expenditures	(32,724)
<b>Other financing sources (uses)</b>	
Financing Proceeds	14,700
Loss on foreign currency	(865)
Total other financing sources (uses)	13,835
Net decrease in fund balance	(18,889)
Fund balance, July 1, 2001	2,295,301
Fund balance, June 30, 2002	\$ 2,276,412

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2002

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Amounts reported for governmental activities in the statement of activities are different because:

Net decrease in fund balance of the general fund	\$ (18,889)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation and loss on asset disposals exceeded capital outlays in the current period.	(287,352)
The use of long-term debt (installment purchases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.	9,438
Some expenses reported in the statement of activities (compensated absences, accrued severance compensation and net pension obligation) do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(220,390)</u>
Change in net assets of governmental activities	<u>\$ (517,193)</u>

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CASH BASIS  
GOVERNMENTAL FUNDS  
For the Fiscal Year Ended June 30, 2002

	Budgeted Amounts			Variances with Final Budget- Positive (Negative)
	Original	Final	Actual	
<b>Revenues:</b>				
Revenue provided by the General Fund of the Commonwealth (Note 3)	\$ 19,914,879	\$ 19,845,136	\$ 19,845,136	\$ -
Participation fees	180,000	125,000	145,365	20,365
Federal Grants	-	20,375	26,469	6,094
Mission reimbursements	100,000	100,000	93,932	(6,068)
Interest revenue	200,600	150,600	129,045	(21,555)
Other revenue	-	-	33,697	33,697
Total revenues	20,395,479	20,241,111	20,273,644	32,533
<b>Expenditures:</b>				
Business Development	4,622,117	4,671,552	4,105,545	566,007
International Trade	2,686,037	2,717,664	2,495,230	222,434
Research	1,924,311	1,991,116	1,776,745	214,371
Communications and Promotions	4,853,176	4,866,094	4,361,054	505,040
Community Assistance	272,431	341,070	316,439	24,631
General Counsel and Legislation	303,843	310,518	299,454	11,064
Technical Services	212,983	220,949	166,286	54,663
Information Systems	982,702	990,668	829,295	161,373
Presentation Systems	1,027,958	1,037,431	932,046	105,385
Administration	2,851,215	2,711,138	2,587,453	123,685
Pass-through Payments	2,430,000	2,630,000	2,630,000	-
Total expenditures	22,166,773	22,488,200	20,499,547	1,988,653
Revenues over (under) expenditures	(1,771,294)	(2,247,089)	(225,903)	2,021,186
<b>Other financing sources (uses):</b>				
Financing Proceeds	-	-	14,700	(14,700)
Loss on foreign currency	-	-	(865)	(865)
Total other financing sources (uses)	-	-	13,835	(15,565)
Revenues and other sources over (under) expenditures and other uses	(1,771,294)	(2,247,089)	(212,068)	2,035,021
Fund balances, July 1, 2001	1,771,294	2,247,089	2,694,648	447,559
Fund balances, June 30, 2002 (Note 3)	\$ -	\$ -	\$ 2,482,580	\$ 2,482,580

The accompanying notes are an integral part of the financial statements.

# VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

## NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2002

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The Virginia Economic Development Partnership (the Partnership) was established on July 1, 1996, by Chapter 638 of the 1995 Acts of Assembly and operates as an authority in accordance with the provisions of Chapter 22 of Title 2.2 of the Code of Virginia. The Partnership's major activities are to encourage, stimulate, and support the development and expansion of the economy of the Commonwealth.

The Partnership is a component unit of the Commonwealth of Virginia. A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Partnership is an integral part of the reporting entity of the Commonwealth of Virginia; accordingly, the Partnership's financial statements are included in the financial statements of the Commonwealth as a discretely presented component unit.

#### B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying financial statements have been prepared in accordance with general accepted accounting principles. The Statement of Net Assets and the Statement of Activities are referred to as "government-wide" financial statements and are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Program revenues include 1) charges for services consisting of participation fees and shared mission reimbursements and 2) grants from the federal government.

The Balance Sheet and the Statement of Revenue, Expenditures, and Changes in Fund Balances are referred to as "governmental fund" financial statements and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Partnership considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as in accrual accounting. However, debt service payments and expenditures related to compensated absences are only recorded when payment is due.

The Partnership reports its activities in governmental funds. The general fund is used for its primary operating fund and accounts for all Partnership financial resources.



C. GASB 34, GASB 37 and GASB 38 Implementation

The Partnership has implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*. The primary impact of the implementation of these statements on the Partnership is a change in the presentation format of the financial statements; the addition of government-wide financial statements using the economic resources measurement focus and accrual basis of accounting; the addition of a Management’s Discussion and Analysis as required supplementary information; the presentation of Partnership’s original budget as well as the final budget and actual results in the budgetary basis financial statement; and certain additional note disclosures.

Additionally, during 2002, the Partnership determined that it would be more appropriate to reflect all of their activities in the general fund for external reporting purposes.

D. Capital Assets

Capital assets are defined by the Partnership as those assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are valued at estimated market value at the date of donation. Capital assets are comprised of leasehold improvements, furniture, and equipment. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

Capital assets are depreciated using the straight-line method over useful lives of two to seven years.

E. Compensated Absences

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by the Partnership employees, but not taken at June 30, 2002. Compensated absences were calculated in accordance with Governmental Accounting Standards Board (GASB) Statement No. 16, “Accounting for Compensated Absences.” This statement requires the accrual of the following: Sick leave earned by employees who, while not currently vested for payment, will probably attain the years of service required to vest for payment and Social Security and Medicare taxes to be paid by the Partnership on all accrued compensated absences.

F. Budgets and Budgetary Accounting

The Partnership’s budget was primarily established by the Appropriation Act as enacted by the General Assembly of Virginia for the fiscal year ended June 30, 2002, which is the second year of the biennium ended June 30, 2002. No payments were made to the Partnership out of the state treasury except in pursuance of appropriations made by law. Payments from the state treasury were deposited into Partnership bank accounts in accordance with the provisions of Chapter 22 of Title 2.2 of the Code of Virginia and expended for purposes as stated in those provisions. The budget is prepared on the cash basis.

## 2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent deposits not with the Treasurer of Virginia and cash in the Local Government Investment Pool (LGIP) with the Treasurer of Virginia. Cash on deposit is held in demand deposit accounts maintained for operating and payroll costs and is covered by federal depository insurance and is not categorized as to credit risk. The LGIP funds are held in pooled accounts and accordingly, are also not categorized as to credit risk as defined by Statement 3 of the Governmental Accounting Standards Board.

Credit risk is the risk that the Partnership may not be able to obtain possession of its investment instruments. Risk category 1 includes investments which are insured or registered or for which the securities are held by the Partnership or its safekeeping agent in the Partnership's name. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or safekeeping agent in the Partnership's name. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent, but not in the Partnership's name. There are no accounts or investments in categories 1, 2, or 3.

<u>Cash and Cash Equivalents</u>	<u>Non- Categorized</u>	<u>Fair Value</u>
Cash on deposit	\$ 96,011	\$ 96,011
Cash with Local Government Investment Pool with the Treasurer	<u>2,077,093</u>	<u>2,077,093</u>
Total cash and cash equivalents	<u>\$ 2,173,104</u>	<u>\$ 2,173,104</u>

## 3. RECONCILIATION OF BUDGETARY FUND BALANCE TO GAAP FUND BALANCE

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cash Basis - General Fund presents comparisons of the legally adopted budget prepared on the cash basis with actual data prepared on the cash basis. To enhance this comparison, actual data on the cash basis is reconciled to actual data on the GAAP basis as follows:

	<u>General Fund</u>
Fund balance, cash basis, June 30, 2002	\$ 2,482,580
Add: Prepaid expenses	44,112
Deduct: Accrued expenses	<u>(250,280)</u>
Fund balance, GAAP basis, June 30, 2002	<u>\$ 2,276,412</u>

4. REVENUE PROVIDED BY THE GENERAL FUND OF THE COMMONWEALTH

The original appropriation from the General Fund of the Commonwealth has been adjusted as follows:

Original appropriation	\$ 21,646,229
Less: Productivity Savings	(481,350)
Administrative and Program Savings	<u>(1,250,000)</u>
Revenue provided by the General Fund of the Commonwealth-Cash Basis Original Budget	19,914,879
Add: Pass-Through Program Restoration	200,000
Net personal service increases	36,946
California advertising	504,623
Less: Telecommunications and Governor's reductions	(529,570)
Fiscal 2003 budget reductions paid in Fiscal 2002	<u>(281,742)</u>
Revenue provided by the General Fund of the Commonwealth	<u>\$ 19,845,136</u>

5. LEASE DEPOSITS

The Partnership maintains offices in Frankfurt, Germany and Tokyo, Japan. Each landlord requires a lease deposit as part of the lease agreement for those locations. The Frankfurt lease deposit is held in U.S. dollars in an interest bearing account and is valued at \$31,975. The interest earned on the deposit is used to offset monthly bank charges. The Tokyo lease deposit is held in Japanese yen and does not accrue interest. The yen deposit decreased in value during the fiscal year ended June 30, 2002, due to a reduction of rentable space reducing the required deposit by \$83,218 and an unfavorable currency exchange rate creating a loss of \$866. The Tokyo lease deposit has been reduced in value to \$121,864. The total value of lease deposits for the Partnership for the fiscal year ended June 30, 2002, is \$153,839.

## 6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2002, was as follows:

<u>Capital Assets Being Depreciated</u>	<u>Balance July 1, 2001</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2002</u>
Leasehold improvements, furniture and equipment	\$ 2,198,482	\$ 90,405	\$ (63,048)	\$ 2,225,839
Less: accumulated depreciation	<u>(1,000,572)</u>	<u>(371,602)</u>	<u>56,893</u>	<u>(1,315,281)</u>
Leasehold improvements, furniture and equipment, net of accumulated depreciation	<u>\$ 1,197,910</u>	<u>\$ (281,197)</u>	<u>\$ (6,155)</u>	<u>\$ 910,558</u>

## 7. OPERATING LEASE COMMITMENTS

The Partnership is committed under various operating leases for office facilities and equipment. Rental expense under operating lease agreements for the fiscal year ended June 30, 2002, amounted to \$1,547,450. A summary of minimum future obligations under these lease agreements as of June 30, 2002, follows:

<u>Year Ending June, 30</u>	<u>Operating Lease Obligations</u>
2003	\$ 1,537,149
2004	1,529,814
2005	380,196
2006	3,760
2007	<u>1,567</u>
Total future minimum rental payments	<u>\$ 3,452,486</u>

## 8. INSTALLMENT PURCHASES OBLIGATIONS

The Partnership has entered into an installment purchase contract to finance the acquisition of a copier. The original contract length was three years and the interest rate is 3.16 percent. Installment purchases activity for the fiscal year ended June 30, 2002, was as follows:

<u>Balance July 1, 2001</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2002</u>
<u>\$ 22,572</u>	<u>\$ 14,700</u>	<u>\$ 24,138</u>	<u>\$ 13,134</u>

Principal and interest payments for this commitment for fiscal years subsequent to June 30, 2002, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 4,796	\$ 345	\$ 5,141
2004	4,950	192	5,142
2005	<u>3,388</u>	<u>40</u>	<u>3,428</u>
Total	<u>\$ 13,134</u>	<u>\$ 577</u>	<u>\$ 13,711</u>

#### 9. COMPENSATED ABSENCES

Compensated absences activity for the fiscal year ended June 30, 2002, was as follows:

<u>Balance July 1, 2001</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2002</u>
<u>\$ 646,930</u>	<u>\$ 520,391</u>	<u>\$ 495,846</u>	\$ 671,475
	Due Within One Year		<u>(488,164)</u>
	Due in More Than One Year		<u>\$ 183,311</u>

#### 10. PENSION PLAN AND OTHER POST EMPLOYMENT BENEFITS

The Partnership is a participating employer in a defined benefit plan administered by the Virginia Retirement System. As of June 30, 2002, the Partnership's net pension obligation was \$860,746.

##### Plan Description

All full-time and part-time salaried employees of the Partnership participate in the defined benefit retirement plan administered by the Virginia Retirement System (VRS). The VRS is an agent and a cost-sharing multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

All full-time and part-time salaried employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount based on 1.7 percent of their average final compensation (AFC). An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. The VRS also administers life insurance and health related plans for retired employees. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the system at P.O. Box 2500, Richmond, Virginia 23218-2500.

#### Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5 percent of their annual salary to the VRS. The employer may assume this 5 percent member contribution. The Partnership does pay the member contribution, which amounted to \$333,716 (5 percent of total creditable compensation of \$6,674,316). In addition, the Partnership is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The Partnership contribution rate for the fiscal year ended June 30, 2002, was 4.24 percent from July 1, 2001, through December 31, 2001, and 0% from January 1, 2002, through June 30, 2002, on a covered payroll of \$3,193,652. The amount contributed for that period was \$135,411.

#### 11. RESTATEMENT OF BEGINNING NET ASSETS

The beginning Partnership net assets have been restated as follows:

	<u>Net Assets</u>
Original balances, June 30, 2001	\$ 2,154,505
Accrued severance and retirement	<u>(92,593)</u>
Restated balances, June 30, 2001	<u>\$ 2,061,912</u>

#### 12. RISK MANAGEMENT

The Virginia Economic Development Partnership is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Partnership is insured for these risks through commercial insurance policies. Further, the Partnership is insured for workers compensation and from loss from employee actions by an insurance policy issued by the Chubb Group, the Great Northern Insurance Company. Policy coverage from loss from employee actions is \$50,000 per year with a \$1,000 deductible for each loss.

The Partnership participates in the state health care insurance plan maintained by the Commonwealth of Virginia, which is administered by the Department of Human Resource Management (DHRM). The Partnership pays premiums to DHRM for health insurance coverage. Information relating to the Commonwealth's insurance plan is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.



# Commonwealth of Virginia

Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

October 25, 2002

The Honorable Mark R. Warner  
Governor of Virginia

The Honorable Kevin G. Miller  
Chairman, Joint Legislative Audit  
and Review Commission

Board of Directors  
Virginia Economic Development Partnership

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the financial statements of the **Virginia Economic Development Partnership** as of and for the year ended June 30, 2002, and issued our report dated October 25, 2002. Our auditor's report on the financial statements is contained in the Partnership's *Annual Report* for fiscal year 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Honorable Mark R. Warner  
The Honorable Kevin G. Miller  
Board of Directors  
October 25, 2002  
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### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Partnership's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

### EXIT CONFERENCE

We discussed this report with management at an exit conference held on October 30, 2002.

AUDITOR OF PUBLIC ACCOUNTS